

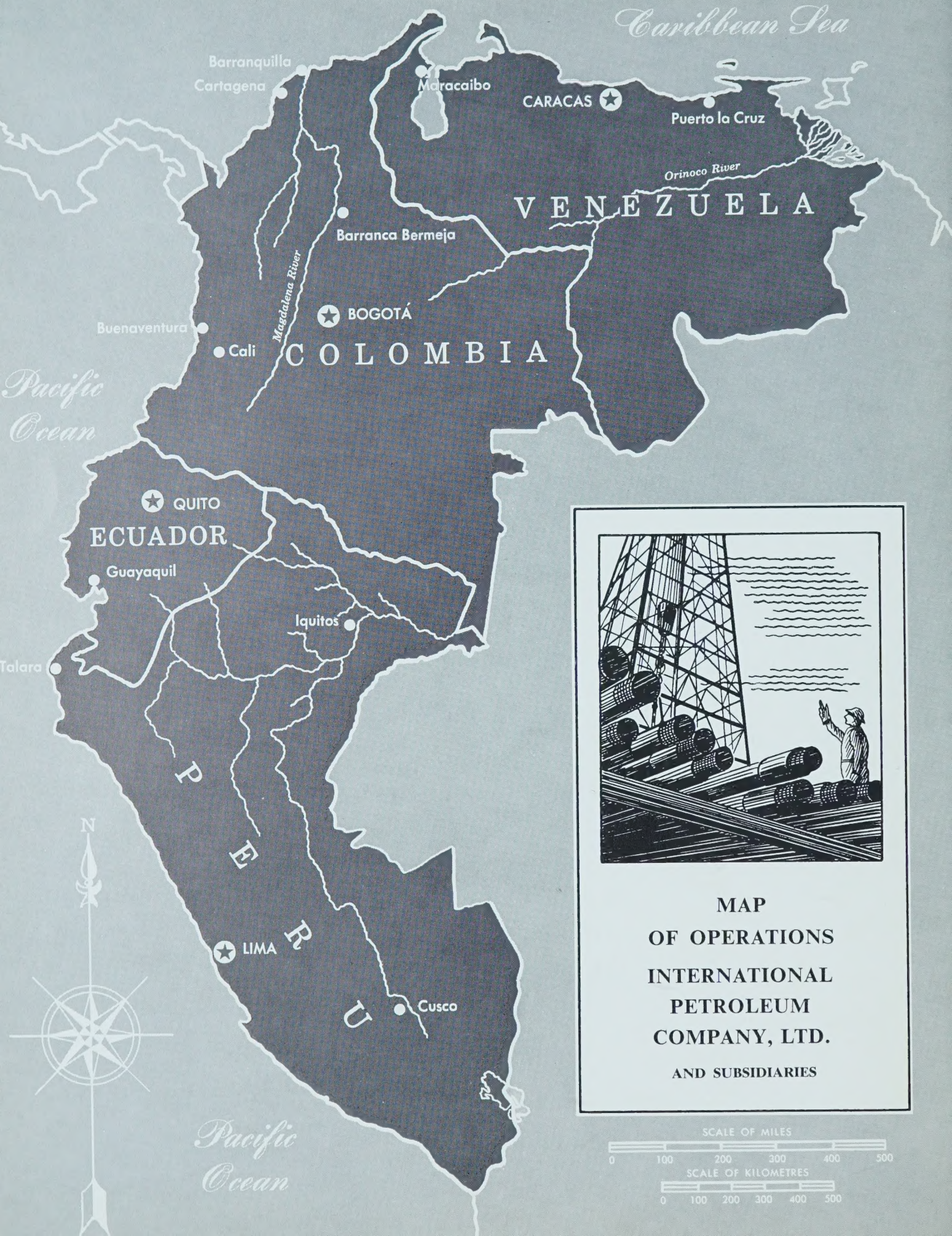
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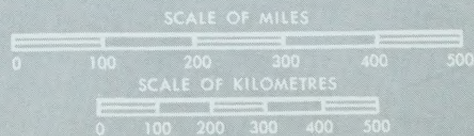
APR 18 1962

International Petroleum Company, Ltd.

ANNUAL
1961
REPORT



MAP
OF OPERATIONS
INTERNATIONAL
PETROLEUM
COMPANY, LTD.
AND SUBSIDIARIES



International Petroleum Company, Ltd.

and Subsidiary Companies

ANNUAL
1961
REPORT

BOARD OF DIRECTORS

Milo M. Brisco
William C. Kirkpatrick
Zeb Mayhew
John K. Oldfield
Henry F. Stevenson
George E. Wagoner
Henry E. Winter

OFFICERS

Milo M. Brisco, *President*
Zeb Mayhew, *Executive Vice President*
Henry F. Stevenson, *Vice President*
C. James Millar, *Comptroller*
Willard W. Stewart, *Treasurer*
Robert B. Acker, *Secretary*

EXECUTIVE REPRESENTATIVES

Lorne A. Smith, *Lima, Peru*
Fernando J. Espinosa, *Bogotá, Colombia*
Mark F. Nero, *Caracas, Venezuela*

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Annual Meeting

The Annual Meeting of the Shareholders
will be held Friday, May 4, 1962
at 11 A. M., E. D. S. T.,
at 185 Bay Street, Toronto.

Offices and Agents

EXECUTIVE OFFICE: 396 Alhambra Circle, Coral Gables, Florida
CORPORATE OFFICE: 185 Bay Street, Toronto, Canada
TRANSFER AGENT: *Montreal Trust Company*, 15 King Street W., Toronto;
466 Howe Street, Vancouver; 511 Place D'Armes, Montreal;
504 Main Street, Winnipeg.
Bankers Trust Company, 16 Wall Street, New York 15, New York

HIGHLIGHTS OF 1961

FINANCIAL

	<u>1961</u>	<u>1960</u>
Net Income	\$ 30,400,000	\$ 30,400,000
Net Income per Share	2.09	2.09
Dividends Paid	17,500,000	17,500,000
Dividends Paid per Share	1.20	1.20
Working Capital	130,600,000	116,600,000
Ratio of Current Assets to Current Liabilities	3.6 to 1	3.1 to 1
Additions to Property, Plant and Equipment	24,300,000	20,100,000
Exploration, Leasing and Dry Hole Costs	8,600,000	10,400,000

OPERATING (barrels daily)

	<u>1961</u>	<u>1960</u>
Gross Crude Production	124,300	129,100
Refinery Crude Runs	83,400	108,400
Sales of Crude and Products	197,400	203,200

TO THE SHAREHOLDERS:

IN 1961, THE OIL INDUSTRY was again faced with the problem of over-supply. As a result, crude and product prices continued weak. Although some improvement was noted in international sales in terms of increased demand, there has been no strengthening of prices.

International's consolidated net earnings for the year 1961 were \$30,400,000, or \$2.09 per share, unchanged from the previous year. Gross revenue declined \$5,400,000, or 2%, compared with the previous year. This reduction was offset by lower operating costs and other expenses.

Dividends were \$1.20 per share for the year, the same as in 1960.

Producing—Drilling proceeded during the year to determine the limits of the Provincia field in Colombia. This work done jointly with another company revealed that important oil and gas reserves can be developed. The seven wells completed to date provided a basis for the installation of crude gathering and pipeline facilities.

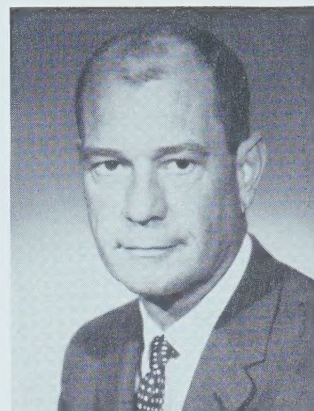
In March of 1961, the Colombian Government enacted a new Petroleum Law apparently intended to meet its objective of increasing the tempo of acreage evaluation. This new legislation will make exploration on future concessions acquired thereunder less attractive to risk capital because of higher governmental royalties, taxes and other obligations more onerous than for concessions granted under prior legislation.

The exploration and development drilling activities in both Peru and Venezuela were continued at about the levels of the previous year. Although good results were obtained in both countries, no outstanding additions to oil and gas reserves were recorded.

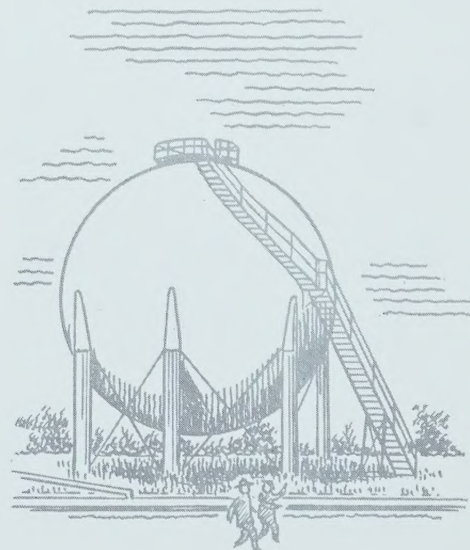
Production of crude for the three countries averaged 124,300 barrels per day compared with 129,100 in 1960.

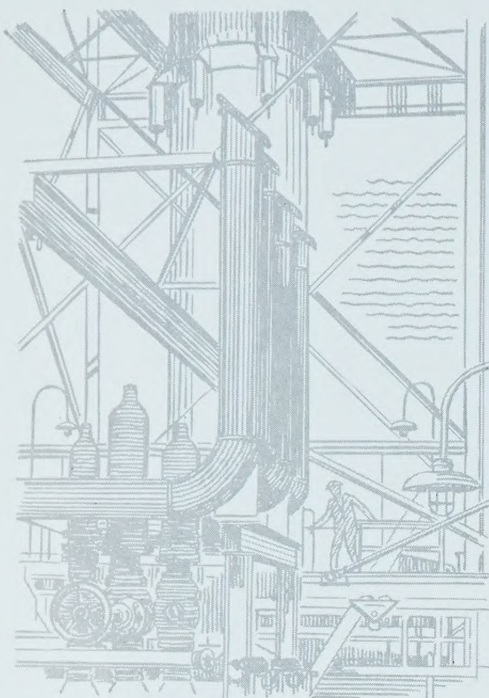
Refining—On March 31, 1961, International Petroleum (Colombia) Limited's contract for management of the Colombian Government's Barranca Bermeja Refinery terminated. Operation of the plant was turned over to the Government-owned oil company. The continued successful operation of this refinery attests to the thorough personnel training and equipment maintenance performed by Intercol during the nearly ten years of the management agreement.

As a result of the termination of the Barranca Bermeja Refinery management contract, the Company's total crude runs decreased 23% to 83,400 barrels per day. However, crude runs at International's own refineries in Talara, Peru, and Cartagena and La Dorada in Colombia, increased 2% in the aggregate.



Milo M. Brisco





To meet the growing Colombian product demand the capacity of the Cartagena Refinery is being increased by some 5,000 barrels per day. This project, which is expected to be completed by April 1962, will bring total capacity at Cartagena to about 33,000 barrels per day.

Petrochemicals—Construction of an ammonia plant and a nitric acid plant at Cartagena, Colombia, by a wholly owned subsidiary of International, is well under way. Present plans call for starting production during the third quarter of 1962. All of the nitric acid and, initially, about 60% of the ammonia will be sold to an adjacent chemical fertilizer plant and the balance exported. The fertilizer plant, also under construction, will manufacture about 650 tons of chemical fertilizers per day when operating at full capacity. International presently has a one third equity in the fertilizer company.

Transportation—Construction has begun in Colombia on a 33 mile 8" crude pipeline to serve the Provincia producing field. The new line should be completed about mid-year, and will be owned jointly by International and the other company participating in the concession.

Andian National Corporation's crude-oil line from the interior of Colombia to the refinery and sea terminal near Cartagena operated below capacity during 1961. Volumes were down 7% from 1960.

In Colombia the products pipeline from Buenaventura to Cali, in which International has an interest, will soon start construction of a 100 mile 6" extension to Cartago in the Cauca Valley. The new pipeline should be completed before the end of 1962. Volumes through the present section of the system were up 12% in 1961.

Marketing—Total Company sales of refined products during 1961 in Colombia, Ecuador and Peru amounted to 31,700,000 barrels, an increase of one per cent over 1960. Substantial increases in sales by the Company's marketing groups more than offset the loss of direct sales volume from the Barranca Bermeja Refinery.

The improved sales picture was brought about in part by International's sales of motor gasoline in Colombia which rose 10% over last year. Another factor influencing the increase was the 23% gain in Peru's sales of heavy fuel during 1961.

Sales to commercial airlines of jet fuel and aviation gasoline increased 10% over last year. Increased demand for jet fuels was such that sales of these fuels alone were 85% more than in 1960.

Peru—The Project of Law presented to the Peruvian Congress in August 1960 by the Executive Branch of the Government, which was designed to provide a basis for negotiation of a new legal status for the La Brea y Pariñas producing property, was not acted upon by the Congress, which adjourned in January 1962. Likewise not acted upon were various minority-group proposals ranging from nationalization of the Company's La Brea property to nationalization of the entire oil industry.



Stock Offer—Shareholders have been kept informed of developments on Esso Standard (Inter America) Inc.'s offer to purchase outstanding shares of International. In addition, information has been provided on the applications of certain shareholders to the Supreme Court of Ontario, seeking to establish that Esso Standard (Inter America) Inc. does not have a legal right to acquire the applicants' shares. On August 31, 1961, the Court dismissed the applications, which had the effect of confirming the right of Esso Standard (Inter America) Inc. to acquire the shares of the applicant shareholders. The latter appealed to the Ontario Court of Appeals who heard the case in February of 1962. As of this writing, the Court's decision has not been handed down.

Executive Changes—Effective June 1, 1961, Mr. M. M. Brisco, formerly Executive Vice President, was elected President of the Company to succeed Mr. J. K. Jamieson, who has been elected a Director and Executive Vice President of Humble Oil and Refining Company, an affiliate. Also on June 1, Mr. H. F. Stevenson, a Director of International, was elected Vice President of the Company. On this same date, Mr. I. R. Cunningham resigned as a Director and Vice President in order to accept a position as Regional Coordinator—Latin America with the Standard Oil Company (New Jersey). Mr. H. E. Winter, formerly the Company's Executive Representative in Venezuela, was elected a Director of International, effective June 1.

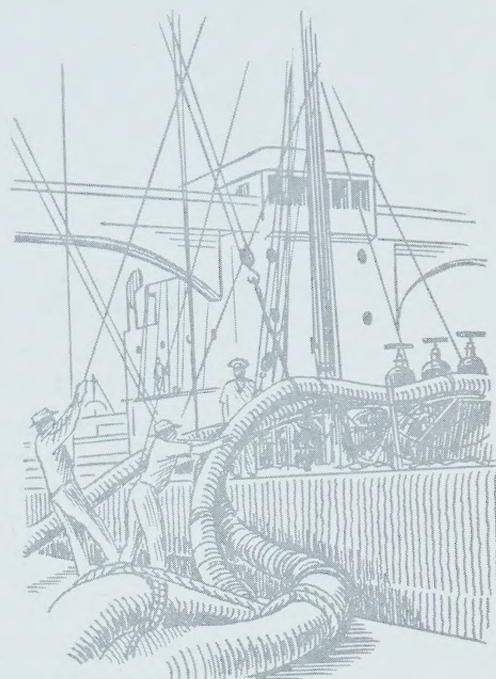
Effective July 1, the Board of Directors elected Mr. Zeb Mayhew a Director and Executive Vice President of International. Prior to his election to International's Board, Mr. Mayhew was Deputy Producing Coordinator for Standard Oil Company (New Jersey). Also effective July 1, Mr. W. W. Stewart was appointed Treasurer replacing Mr. A. C. Hamilton, who resigned to accept the position of Treasurer of Esso International, Inc.

For the Board of Directors

M M Brisco

April 4, 1962

President



FINANCIAL REVIEW

NET INCOME AND DIVIDENDS

Consolidated net income for the year 1961 was \$30,400,000, equal to \$2.09 per share, and was practically unchanged from the previous year.

Dividends paid in 1961 were at the rate of \$1.20 per share, the same rate as in 1960. The amount of dividends paid in 1961 was \$17,500,000 and equalled 58% of consolidated net income.

REVENUE

Gross operating revenue including consumer taxes collected for governments was \$261,800,000 for the year 1961. This was \$5,400,000 or 2% less than in 1960. The sources of revenue for the two years were as follows:

	<u>1961</u>	<u>1960</u>
Sales of crude oil	\$ 68,400,000	\$ 71,500,000
Sales of petroleum products, etc.	181,900,000	184,500,000
Transportation and other revenue	<u>11,500,000</u>	<u>11,200,000</u>
Total	<u>\$261,800,000</u>	<u>\$267,200,000</u>

The decline in revenue from crude oil sales in 1961 reflected both decreased volume and lower prices. Of the 1961 Venezuelan crude oil volume sold, 39% was shipped to Canada, 22% to the United States and 39% to other Western Hemisphere countries.

With the termination of the Barranca Bermeja Refinery contract as of March 31, 1961 there was an appreciable reduction in refinery sales of petroleum products in Colombia as compared with the year 1960. This decrease was offset to some extent by an increased volume of sales in other areas.

COSTS AND OTHER DEDUCTIONS

Operating charges and other expenses excluding taxes were \$177,300,000 in 1961, a decrease of \$4,200,000 or 2% as compared with 1960. The principal changes were:

	<i><u>Increase</u></i> <i><u>(Decrease)</u></i>
Purchase of crude oil	\$(14,500,000)
Purchase of petroleum products and merchandise	21,200,000
Exploration, operating and administrative expenses	(9,900,000)
Depreciation, depletion, amortization and retirements	(1,200,000)

The substantial reduction during 1961 in crude oil purchases and in exploration, operating and administrative expenses was mainly due to the termination of the Barranca Bermeja Refinery contract as of March 31, 1961. For the same reason the purchases of petroleum products were significantly increased.

The change in the charge for depreciation and depletion was occasioned by lower crude oil production in Venezuela.

TAXES

Tax and other payments to governments totaled \$60,900,000 in 1961 compared with \$62,200,000 in 1960 as summarized below:

	<u>1961</u>	<u>1960</u>
Production taxes	\$ 16,000,000	\$ 17,200,000
Consumer taxes	9,400,000	8,500,000
Property, franchise and other operating taxes	3,900,000	2,800,000
	<u>29,300,000</u>	<u>28,500,000</u>
Income and export taxes	28,400,000	30,500,000
Import duties and miscellaneous taxes	3,200,000	3,200,000
	<u>\$ 60,900,000</u>	<u>\$ 62,200,000</u>

The drop in production taxes reflected lower production in Venezuela. Sales volumes in both Peru and Colombia increased with a corresponding increase in related consumer taxes. There was an increase during the year in Peruvian fiscal stamp tax rates, which caused an appreciable addition to operating taxes.

The reduction in income and export taxes as compared with the previous year was due to lower taxable income.

WORKING CAPITAL

Consolidated working capital at December 31, 1961 was \$130,600,000 up \$14,000,000 from the end of the previous year. The ratio of current assets to current liabilities improved from 3.1 to 3.6.

A comparative summary of the change in working capital is shown below:

	<u>1961</u>	<u>1960</u>
SOURCE OF FUNDS:		
Net income	\$ 30,400,000	\$ 30,400,000
Depreciation, depletion, amortization and retirements	23,000,000	24,300,000
Accruals for annuities and service indemnities (net of payments)	(600,000)	3,200,000
Proceeds from sales of property, plant and equipment	1,600,000	800,000
Receipts from loans receivable and investments	700,000	5,400,000
Other (net)	700,000	800,000
Total	<u>\$ 55,800,000</u>	<u>\$ 64,900,000</u>
DISPOSITION OF FUNDS:		
Additions to property, plant and equipment	\$ 24,300,000	\$ 20,100,000
Cash dividends \$1.20 per share	17,500,000	17,500,000
Total	<u>\$ 41,800,000</u>	<u>\$ 37,600,000</u>
INCREASE IN WORKING CAPITAL	<u>\$ 14,000,000</u>	<u>\$ 27,300,000</u>

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment in 1961 totaled \$24,300,000, an increase of \$4,200,000 from 1960. Included in these additions under the caption refining was \$6,100,000 for an ammonia and nitric acid plant under construction at Cartagena, Colombia by a wholly owned subsidiary, Amoniaco del Caribe, S.A. The additions and gross and net plant investments are shown by departments in the following table:

	<u>Additions</u>		<u>Plant Investment</u> <u>December 31, 1961</u>	
	<u>1961</u>	<u>1960</u>	<u>Gross</u>	<u>Net</u>
Producing	\$ 14,600,000	\$ 16,400,000	\$402,100,000	\$142,600,000
Refining.	6,400,000	500,000	73,000,000	46,200,000
Marketing	2,800,000	2,500,000	42,500,000	24,400,000
Pipeline	500,000	700,000	34,500,000	6,000,000
Other			800,000	500,000
Total	<u>\$ 24,300,000</u>	<u>\$ 20,100,000</u>	<u>\$552,900,000</u>	<u>\$219,700,000</u>

In addition, exploration, leasing and dry hole costs amounting to \$8,600,000 were charged against income in 1961 compared with \$10,400,000 in 1960.

MISCELLANEOUS INVESTMENTS

During the year the company agreed to buy a one-third interest in Abonos Colombianos, S.A., a company which was recently formed for the manufacture and sale of chemical fertilizers. At December 31, 1961 the company had purchased 700,000 shares at a cost of \$820,000. Additional financing in this company is outlined under the section Commitments and Long Term Leases in the Notes To Financial Statements.

Work is proceeding on the fertilizer plant which is located at Cartagena, Colombia.

EMPLOYEES' ANNUITIES AND SERVICE INDEMNITIES

The accrued liability for annuities was \$38,100,000 and for service indemnities \$15,300,000 as of the year end 1961. The liability for annuities represents the dollar equivalent of accruals, less payments, for pensions payable in local currencies to national employees pursuant to existing social laws and company plans. Service indemnities are payable to employees, based on length of service in accordance with the laws of the respective countries.

SUBSIDIARY COMPANIES

The accounts for all subsidiaries have been included in the Consolidated Financial Statements. The principal operating subsidiaries are Esso Colombiana, S.A., International Petroleum (Colombia) Ltd., Andian National Corporation, Ltd., Compania Peruana de Gas, S.A., and Amoniaco del Caribe, S.A.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
INTERNATIONAL PETROLEUM COMPANY, LIMITED:

We have examined the consolidated balance sheet of International Petroleum Company, Limited and subsidiary companies as at December 31, 1961 and the related consolidated statements of income and retained earnings for the year then ended, and have obtained all the information and explanations which we required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

55 Yonge Street
Toronto 1, Canada
March 2, 1962

International Petroleum Company, Limited*and Subsidiary Companies***CONSOLIDATED BALANCE SHEET** *(Stated in United States Dollars)***ASSETS**

	<i>December 31</i>	
	<u>1961</u>	<u>1960</u>
CURRENT ASSETS:		
Cash	\$ 5,590,811	\$ 5,275,670
Marketable securities at market value (less than cost)	2,022,622	516,216
Accounts and notes receivable—		
Interest-bearing demand deposit with Standard Oil Company		
(New Jersey)	109,974,887	95,831,993
Trade and other, less doubtful accounts	29,984,111	29,671,663
Inventories—		
Crude oil, petroleum products and other merchandise	15,232,245	17,430,499
Materials and supplies	17,306,674	22,766,858
	<u>180,111,350</u>	<u>171,492,899</u>
PROPERTY, PLANT AND EQUIPMENT, at cost	552,957,299	534,944,025
Less—Depreciation, depletion and amortization	<u>333,286,030</u>	<u>314,323,410</u>
	219,671,269	220,620,615
OTHER ASSETS:		
Long term loans and deposits	3,055,335	4,707,794
Miscellaneous investments, at cost	2,370,048	1,425,954
Prepaid and deferred charges	1,260,862	1,246,398
	<u>\$406,468,864</u>	<u>\$399,493,660</u>

The Notes to Financial Statements on page 13

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31

	<u>1961</u>	<u>1960</u>
CURRENT LIABILITIES:		
Notes and loans payable	\$ 3,838,230	\$ 2,766,729
Accounts payable and accrued liabilities	27,044,820	28,874,664
Estimated income taxes payable	18,625,061	23,238,712
	<u>49,508,111</u>	<u>54,880,105</u>
EMPLOYEES' ANNUITIES AND SERVICE INDEMNITIES	53,445,816	54,053,292
EQUITY OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES .	419,491	417,194
SHAREHOLDERS' EQUITY:		
Capital Stock:		
Authorized — 39,800,000 shares of no nominal or par value		
Outstanding: 1961—14,570,983 shares;		
1960—14,570,983 shares	102,288,799	102,288,799
Retained earnings (see accompanying statement)	<u>200,806,647</u>	<u>187,854,270</u>
	<u>303,095,446</u>	<u>290,143,069</u>
APPROVED ON BEHALF OF THE BOARD:		
M. M. Brisco, <i>Director</i>		
W. C. Kirkpatrick, <i>Director</i>		
	<u>\$406,468,864</u>	<u>\$399,493,660</u>

International Petroleum Company, Limited

and Subsidiary Companies

CONSOLIDATED INCOME STATEMENT

(Stated in United States Dollars)

	For the Year Ended December 31	
	1961	1960
REVENUE:		
Sales and services, including consumer taxes of \$9,422,172 in 1961 and \$8,464,069 in 1960	\$261,786,947	\$267,215,230
Interest and other revenue	3,669,439	3,713,931
	<u>265,456,386</u>	<u>270,929,161</u>
COSTS AND OTHER DEDUCTIONS:		
Purchases of crude oil, petroleum products and other merchandise, including transportation costs	96,207,863	89,448,500
Exploration, operating and administrative expenses	62,119,868	72,063,360
Depreciation, depletion, amortization and retirements	23,038,526	24,284,998
Foreign exchange adjustments	(4,067,915)	(4,296,388)
Taxes other than income and export taxes (see page 7)	29,252,113	28,512,978
Provision for income and export taxes	28,414,686	30,466,411
Income applicable to minority interests	53,688	62,113
	<u>235,018,829</u>	<u>240,541,972</u>
NET INCOME	<u>\$ 30,437,557</u>	<u>\$ 30,387,189</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Earned Surplus)

(Stated in United States Dollars)

	For the Year Ended December 31	
	1961	1960
Balance January 1	\$187,854,270	\$174,951,721
Net income for the year	30,437,557	30,387,189
	<u>218,291,827</u>	<u>205,338,910</u>
Dividends paid	17,485,180	17,484,640
Balance December 31	<u>\$200,806,647</u>	<u>\$187,854,270</u>

The Notes to Financial Statements on page 13 are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Foreign Exchange

The salient features of the procedure followed, in general, in translating foreign currency accounts into dollars are: (1) inventories at rates prevailing when acquired, other current assets and current liabilities at year end rates, (2) property, plant and equipment, and permanent investments at rates prevailing at acquisition and depreciation, depletion, amortization and retirements at amounts based on such dollar costs of these properties, (3) reserves for employees' annuities and service indemnities at rates prevailing when provided, and (4) local currency revenue and costs at average monthly rates. Foreign exchange differences which arose as the result of the application of the foregoing procedure have been included in consolidated net income.

Inventories

The last-in, first-out method was applied to determine the cost of crude oil and petroleum products. The replacement cost of these inventories was substantially greater at December 31, 1961. Other merchandise and materials and supplies were carried at cost or less.

Property, Plant and Equipment

Property, plant and equipment are stated at cost until sold, abandoned or otherwise disposed of. The cost of undeveloped concessions is capitalized and no amortization is provided thereon until production is obtained. If undeveloped concessions are surrendered, the cost is charged to income. Leasing and exploration costs, including lease rentals and dry holes, are charged to income currently. All drilling costs are capitalized, except those applicable to dry holes.

Depreciation, depletion and amortization are charged to income over the estimated useful lives of the related assets by application of either the unit-of-production or the straight-line method, as appro-

priate. Estimated commercially recoverable oil reserves are used in arriving at the rates for unit-of-production depreciation and depletion.

Restricted Earnings

Retained earnings include a statutory reserve of \$1,295,191 not available for dividends.

Commitments and Long Term Leases

To assist the Venezuelan Government in marketing Treasury Bills in bolivars in the United States, the company committed itself prior to December 31, 1961 to purchase on or before maturity the equivalent of \$3,500,000 of such bills from the holders. The proceeds from the redemption of the bills will be used in payment of the company's income tax installments in Venezuela which fall due on October 15, 1962 and October 15, 1963. These dates coincide with the due dates in respect of the balance of taxes applicable to the year 1961.

A subsidiary of International committed itself to purchase the equivalent of \$1,270,000 in long-term housing bonds issued by Venezuela banks.

International has agreed to purchase additional shares of Abonos Colombianos, S.A., a Colombian fertilizer company, at a cost equivalent to \$2,000,000 and also has a commitment under certain circumstances to increase its equity in this company by an additional amount up to the equivalent of \$2,400,000.

The companies have leases for real properties and a charter for a tanker for which the minimum annual rentals payable are estimated at \$320,000 for the year 1962.

Counsel Fees and Executives' Salaries

Counsel and solicitors' fees and salaries of executive officers, including salaries of directors, amounted to \$539,650 in 1961.



International Petroleum Company, Ltd.